DEPARTMENT OF DEFENSE
OFFICE OF THE DEPUTY UNDER SECRETARY OF DEFENSE (INSTALLATIONS AND ENVIRONMENT)

MILITARY HOUSING PRIVATIZATION INITIATIVE

PROGRAM EVALUATION PLAN

EXECUTIVE REPORT

AS OF

SEPTEMBER 30, 2013

The estimated cost of this report or study for the Department of Defense is approximately $187,000 for the 2014 Fiscal Year. This includes $145,000 in expenses and $42,000 in DoD labor.
Generated on 2014Sep15 RefID: 6-56DC6EE
Reference: 6-56DC6EE

TABLE OF CONTENTS

I. Introduction

The Office of the Secretary of Defense (OSD) designed the Program Evaluation Plan (PEP) as a tool to oversee the performance of the Military Housing Privatization Initiative (MHPI) and to analyze this initiative's effectiveness in eliminating the Department of Defense (DoD) inventory of inadequate housing, while also improving the quality of life of military Service members. The PEP reporting system includes detailed information submitted by each of the Services to OSD regarding the performance of their portfolios of MHPI projects. OSD uses this information to monitor the program's progress, conduct financial and performance oversight, and implement program improvements. This executive report summarizes the MHPI program's health and status based on information submitted for the September 30, 2013 PEP reporting period.

In addition, the National Defense Authorization Act (NDAA) for Fiscal Year 2013 requested the Secretary of Defense to submit a status report on military housing privatization projects that answers six specific questions. This document is a combination of both reports. The document provides essential information in the PEP report format along with answering the NDAA request in appendix 4.

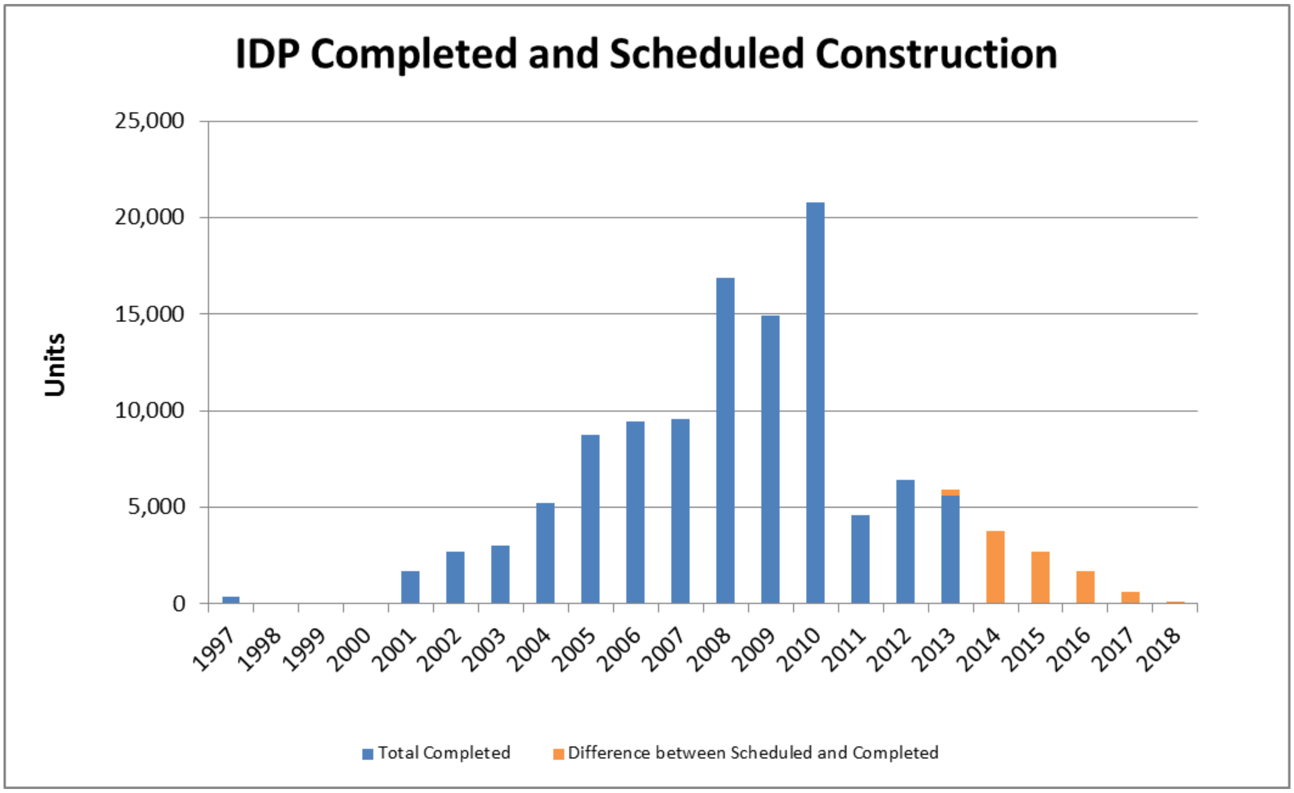
II. Program Progress

As the housing privatization program evolves and proves itself, the Services increasingly rely on the program to solve their housing needs. Using MHPI authorities, the Services privatized over 205,000 homes, eliminated over 141,500 inadequate homes, and provided almost 18,000 deficit reduction homes. Housing is considered privatized when ownership is transferred from the government to private developers.

The initial development scope (construction and renovation) required by project owners to bring homes to adequate condition is executed during the Initial Development Period (IDP). During the IDP, inadequate housing is eliminated, existing housing is renovated and updated, and the projects are right-sized by either eliminating excess housing or by constructing new additional homes to ensure current housing requirements for each project are met. The term of the IDP is generally five to ten years, depending upon the number of required new homes, the existing condition of homes to be renovated, and the amount of resources available to fund the development. As of September 30, 2013, 41 out of 82 projects completed their IDPs.

As shown in Exhibit A, 2008 through 2010 were the peak years for the delivery of new and renovated homes in the portfolio. IDP construction is projected to continue to taper off until 2018, when the final homes of the IDPs are expected to be completed. An overview of the program's implementation to date is provided in Appendix 2.

Exhibit A



Now that most of DoD's family housing has been privatized and IDP construction is nearing completion, the ongoing task of managing and monitoring the Government's interests in the portfolio is the program's focus. For the remainder of the lease/use agreement term, homes will continue to be replaced and renovated and project scopes will be adjusted to meet new requirements. While the magnitude of post-IDP construction and scope adjustments may not be as large as during the peak IDP years, these challenges are important and continue for a much longer time period. The primary tasks for OSD and the Services for the next 40 years are ensuring that:

- Project owners meet their obligations;
- Projects remain financially viable;
- Projects continue to address changing requirements; and,
- Military members and their families have access to affordable housing in which they would want to live.

III. Construction

<u>Construction Progress</u>

Table 1 summarizes each Service's portfolio scope in the family housing privatization initiative through September 30, 2013. The table presents both the number of planned privatized homes as well as the number of homes actually constructed and renovated, allowing a comparison of program progress against established housing objectives. The numbers of homes in Table 1 reflect the project scopes that were approved by OSD and the Office of Management and Budget (OMB). As indicated in Table 1, the Services have completed 79 percent of IDP new construction and 74 percent of IDP renovated housing. Appendix 7 identifies, on a project-by-project basis, scope modifications that occurred subsequent to the most recent OSD and OMB approvals.

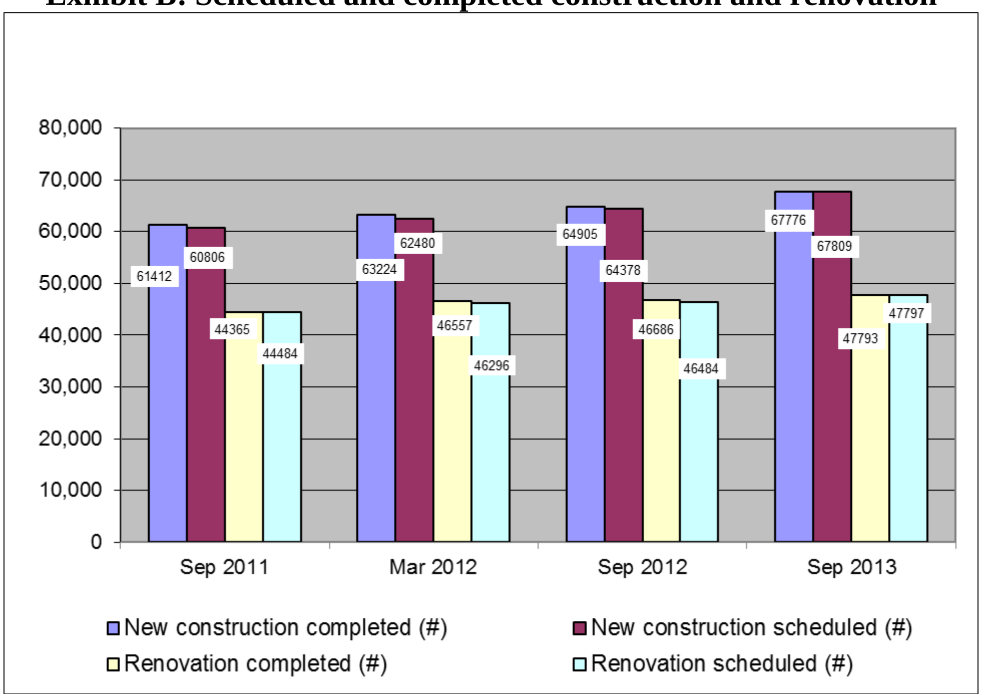
Table 1: Progress in completing IDP construction and renovation

Service	Total privatized units in IDP	Total units with no work in IDP*	Total new units to be constructed in IDP	Total new construction units completed in IDP	% New construction units completed in IDP	Total units to be renovated in IDP	Total renovation units completed in IDP	% Renovation units completed in IDP
Army	87,430	16,250	39,718	30,276	76%	31,462	25,922	82%
Air Force	53,602	16,781	23,019	19,145	83%	13,802	10,653	77%
Navy/Marines	64,451	22,118	22,883	18,355	80%	19,450	11,218	58%
Total	**205,483**	**55,149**	**85,620**	**67,776**	**79%**	**64,714**	**47,793**	**74%**

**Initial Development Period*

It is challenging for developers to meet a multiple-year construction schedule even under normal conditions. Typical challenges to completing projects on schedule include: weather; cost and availability of construction materials; environmental problems; and labor and subcontractor issues. Developers in the MHPI program address these issues while also dealing with heightened security, force protection measures, and adverse effects on occupancy, such as extended deployments and redeployments. Exhibit B graphically illustrates how actual new construction and renovation compares with approved schedules for the last several reporting periods. As demonstrated in Exhibit B, the MHPI portfolio as a whole has virtually met or exceeded its construction schedule for the last four PEP reporting periods despite the challenges discussed above.

Exhibit B: Scheduled and completed construction and renovation



IV. Ongoing Operations

Like any large-scale private sector residential project, private sector incentives, disciplines, and controls are primarily responsible for keeping projects on track. As projects mature, an emphasis on the performance of operations and property management functions is increasingly important to sustain adequate housing for the life of a project.

A. Occupancy and Debt Service Coverage Ratio

In part, the military Services monitor the financial health and performance of housing privatization projects by measuring a project's debt coverage ratio (DCR). The DCR measures a project's net operating income in relation to debt service requirements and provides an indication of a project's performance and ability to meet mortgage debt obligations. If the DCR drops below a 1.0 ratio, revenues are insufficient to cover the project's permanent debt service requirements (principal and/or interest) after payment of operating expenses.

Since the occupancy rate directly correlates to revenue generation, it is also monitored. Occupancy rates in a residential project serve as an indicator of both the financial stability of the project and the desirability of the homes. Because occupancy directly affects financial performance and serves as an indicator of tenant satisfaction, project owners must aggressively focus on occupancy in an attempt to either maintain strong performance or reverse negative trends.

<u>Occupancy</u>
Portfolio occupancy remained level at about 95 percent during this reporting period. While the forecast is that occupancy will continue to remain high, the Services continue to vigilantly address variances from projections. Many factors contribute to each specific project's occupancy rate, including:

- the quality of off-installation rentals and for-sale housing;
- the quality of on-installation housing;
- whether the project is under construction;
- rental and vacancy rates in the surrounding community;
- availability of mortgage loans;
- interest rates;
- for-sale housing prices;
- convenience issues (e.g. commute time);
- school quality;
- local crime statistics; and,
- the quality of property management service provided by the project owner.

The project owner affects or controls only two of these factors – the quality of on-installation housing and the service provided to tenants. Property managers increased occupancy at various projects by using private sector best practices such as rent reductions and upgrading of unit fixtures. They are also diligently implementing marketing and client management techniques to reduce departures of families during deployments, thus mitigating the financial impact to the project.

The Services' portfolio management teams continue to collaborate with the various project owners to create/revise plans to resolve outstanding project issues and improve performance. Additionally, the portfolio management teams conduct re-forecasting analyses to ascertain the long-term impact of both historical and current financial health on the ability of all projects to complete their targeted revitalization scope and remain competitive over their 50-year life span. In all cases, the Services' portfolio management teams work to pursue solutions that help align projects with the market and improve the portfolio's overall health.

<u>Alternative Tenant Waterfall</u>

The economic risk for each privatized project falls on the private sector developers and lenders. If the project managing member/owner cannot attract a sufficient number of military families due to changing circumstances or factors beyond their control, such as extended deployments, force realignments, market fluctuations, etc., they use the alternative waterfall (a priority listing of who may lease the homes) to help ensure the project has sufficient ongoing occupancy to provide the funds necessary to maintain financial viability.

Virtually all projects that currently report low occupancy and debt service coverage ratios take advantage of the alternative tenant waterfall option to sustain occupancy. The alternative tenant waterfall policy is effective in maintaining occupancy rates despite extended deployment and BAH rate challenges. Currently, 71 out of 82 privatized projects take advantage of this opportunity. Table 2 shows the degree to which the project owners and the Services used this alternative, the additional tenant groups they leased to since March 2012, and the basic trending of the alternative tenant waterfall over the past three reporting periods.

Table 2: Use of the tenant waterfall

	Mar-12	Sep-12	Sep-13	% of Total Available Units Sep-12	% of Total Available Units Sep-13	% Point Change from Sep-12
Military Families	171,747	171,898	174,381			
Unaccompanied	3,741	3,296	3,695	1.8%	2.0%	0.2
Active National Guard and Reserve	365	320	290	0.2%	0.2%	0.0
Retirees	847	1,096	1,284	0.6%	0.7%	0.1
Federal Government Civilians	2,408	2,428	2,424	1.3%	1.3%	0.0
Other	426	477	741	0.3%	0.4%	0.1
General Public	2,005	2,158	2,483	1.2%	1.3%	0.1
Total	9,792	9,775	10,917	5.4%	5.9%	0.5

Since September 2012, the number of tenants from the waterfall living in privatized housing increased from 9,775 to 10,917, a change of about 12 percent. However, when comparing total waterfall tenants as a percentage of overall homes, the proportion has remained fairly constant at 5 to 6 percent. While the waterfall serves an important and sometimes varied function for the program, the percentage of tenants it represents still remains small compared to the number of military families the program serves. Appendix 3 presents alternative tenant waterfall use by Service and project.

Debt Service Coverage Ratio Requirements

To help ensure the financial safety of their mortgages, commercial lenders commonly specify a required minimum debt coverage ratio (DCR) to make a loan, whether it is a senior or junior loan. DCR requirements, depending on a particular project's situation, normally range from 1.05 to 1.25. Alternatively, government direct loans (those in a subordinate debt position) normally are sized at stabilization to provide an expected, but not required, minimum of a 1.05 project combined DCR. Table 3 demonstrates both the actual and required project loan DCRs for those projects that have completed their IDPs.

At the end of the September 2013 reporting period, all of the projects that completed their IDPs, with the exception of the South Texas, AETC Group I, and Hickam AFB projects, are operating above their DCR required level.

The South Texas project is currently undergoing a restructuring. Financial performance is improving. In addition, the lender has approved an annual budget allowing funds to flow through the cash flow waterfall and into reserve accounts. The project will begin repaying some deferred debts and the current outlook is for the DCR to rise above required levels by the next reporting period.

The shortfall at AETC Group I was due to lower than projected occupancy and higher than projected operating expenses. However, all debt service obligations have been met to date and the Project Owner will utilize reserve funds if necessary to offset future operating expense overruns. As of March 2014, the Senior Loan DCR rose to 1.34 and the Combined DCR rose to 1.10, both above their respective requirements.

The shortfall at Hickam AFB was due to lower than projected NOI from weak BAH growth and fewer units available for occupancy due to damaged historic units. Significant utility rate increases from the working capital fund have also challenged the DCR. However, all debt service obligations have been met to date and future debt service concerns were mitigated by additional capitalized interest funding as part of the project restructuring. As of March 2013, the Senior Loan DCR had risen to 1.40 and the Combined DCR rose to 1.30, both now above their respective requirements.

B. Limited Loan Guarantees

DoD has provided limited loan guarantees at 11 installations. During financial restructuring, the limited loan guarantee was eliminated at Elmendorf AFB, Alaska, and Lackland AFB, Texas. Elimination of additional loan guarantees may occur during future loan refinancings as the program matures and financial institutions no longer require any government support of the loan. This elimination represents a reduction in the government's financial exposure. The financial performance of the nine projects currently covered by limited guarantees has remained well above guarantee thresholds. Appendix 5 contains detailed information on projects with guarantees and their performance.

Table 3

DCR Requirements				
Project	**Actual Senior Loan DCR**	**Required Senior Loan DCR**	**Actual Combined DCR**	**Required Combined DCR**
AETC Group I	1.21	1.25	1.11	N/A
Buckley AFB	1.57	1.20	1.40	1.05
Camp Pendleton I	1.98	1.25	1.61	N/A
Carlisle/Picatinny	1.63	N/A	N/A	N/A
Dover AFB	1.57	1.25	1.22	1.05
Dyess AFB	1.24	1.05	N/A	N/A
Elmendorf AFB I	3.06	1.20	2.13	1.05
Elmendorf AFB II	2.53	1.20	1.64	1.05
Everett I	N/A	N/A	N/A	N/A
Everett II	1.46	N/A	N/A	N/A
Falcon Group	1.49	1.15	1.38	1.05
Fort Belvoir	1.49	N/A	N/A	N/A
Fort Bliss/WSMR	1.44	N/A	N/A	N/A
Fort Campbell	1.80	N/A	N/A	N/A
Fort Carson	2.25	N/A	1.41	N/A
Fort Detrick/WRMC	1.29	1.00	N/A	N/A
Fort Drum	1.55	N/A	N/A	N/A
Fort Eustis/Fort Story	1.44	N/A	N/A	N/A
Fort Gordon	1.19	N/A	N/A	N/A
Fort Hamilton	1.11	N/A	N/A	N/A
Fort Hood	2.65	N/A	N/A	N/A
Fort Meade	1.35	1.00	N/A	N/A
Fort Sam Houston	1.62	N/A	N/A	N/A
Hickam AFB	1.14	1.20	1.11	1.05
Hill AFB	3.26	1.20	2.20	1.05
JB McGuire-Dix-Lakehurst	1.78	1.15	1.52	1.05
Kingsville I	1.41	N/A	1.03	N/A
Kingsville II	2.99	N/A	1.91	N/A
Kirtland AFB	2.03	1.20	1.53	1.05
Nellis AFB	1.34	1.20	1.00	1.05
New Orleans	1.80	1.10	N/A	N/A
Northeast Regional	1.16	1.20	N/A	N/A
Northwest	1.35	1.35	N/A	NA
Offutt AFB	1.56	1.15	1.09	1.05
Redstone Arsenal	1.82	N/A	N/A	N/A
Robins AFB I	1.62	1.20	1.03	1.05
Robins AFB II	1.52	1.25	N/A	N/A
Scott AFB	1.29	1.25	1.10	1.05
South Texas	1.03	1.10	N/A	N/A
Vandenberg	1.41	1.20	N/A	N/A
Wright-Patterson AFB	2.02	1.20	1.76	1.05

C. Unaccompanied Housing

Army Unaccompanied Housing (UH)

As an extension of the family housing program, the Army has worked through the operational and developmental challenges posed by the Unaccompanied Officer / Unaccompanied Senior Enlisted Housing programs (UO/USE). A significant element is that rents are based upon both BAH and market rates. Rents for one-bedroom apartments are tied to E6 BAH. However, two-bedroom rents fluctuate according to local market conditions. The project owner has the flexibility to set rents according to demand. In keeping with private sector practices, the UO/USE housing program calls for soldiers living in two bedroom apartments to jointly manage bill paying (e.g. utilities and rent).

The Army has built a combined total of 1,038 UOQ/USEQ apartments at: Fort Drum, New York; Fort Irwin, California; Fort Bragg, North Carolina; and Fort Stewart, Georgia. At the end of the reporting period, portfolio-wide UH occupancy was 95.2 percent. An additional 120 UOQ/USEQ apartments at Fort Bragg and 432 apartments for Unaccompanied Junior Enlisted are planned to be built at Fort Meade, Maryland, which will bring the UH portfolio total to 1,590 privatized apartments. Financially, the portfolio has done extremely well.

Navy Unaccompanied Housing

The Navy has executed two UH projects—one in San Diego, California, and another in Hampton Roads, Virginia. The pilot projects were authorized under the National Defense Authorization Act for Fiscal Year 2003 that provided the Navy additional UH authorities. In addition to the privatization of 723 existing units, the Hampton Roads project has built 1,190 new apartments to house 2,367 unaccompanied shipboard (E1-E3) Sailors. In addition to the privatization of 258 existing units for shipboard E1-E3 Sailors, the San Diego project includes 941 new apartments intended to house 1,882 E4-E6 sailors. As of March 2012, all the units were completed at both Hampton Roads and San Diego.

Overall UH portfolio-wide occupancy is 97.1 percent. Due to a lower demand from E4-E6 Sailors, a portion of the new apartments in the San Diego project are occupied by shipboard E4 (less than four years of service) Sailors and shore duty E1-E3 Sailors. NOI is lower than expected in San Diego because these junior Sailors, who pay only partial BAH for rent, comprise over 30 percent of the tenants.

NOI is also lower than expected in Hampton Roads. This was primarily caused by four BAH decreases in the area since 2007 for the target paygrades. In addition, the project owner decided to provide the residents with cable/internet service, which was not included in the original pro forma.

D. Lodging

Using the same MHPI authorities, the Privatization of Army Lodging (PAL) program is the Army's chosen approach to recapitalize and sustain its U.S. on-post lodging facilities. The PAL program was initiated to: improve the quality of life for soldiers and their families; develop new and renovated hotel facilities with superior hotel amenities and services; and, provide for the long-term sustainment of the facilities. All of this will be accomplished while maintaining a weighted official travel rate of 75 percent of lodging per diem. PAL is designed as a portfolio-based program where operational requirements are financially cross-collateralized and jointly leveraged. The PAL will consist of a portfolio of commercially branded hotels with new construction branded as either Candlewood Suites or Staybridge Suites, while renovated facilities will be converted to Holiday Inn Express hotels. Additionally, small historic buildings will be part of the "Historic Collection" brand. The PAL program is critical to the Army's mission and is the lodging source for institutional trainees and other official travelers.

With the lodging program mostly complete, the PAL project has a total of 11,922 privatized rooms on 39 installations. The PAL project is in the middle of an extensive two-year development period which includes five new Candlewood Suites hotels and the branding of 11 Holiday Inn Express hotels. New hotels are currently under construction at Fort Riley, Yuma Proving Grounds, Fort Hood, Joint Base San Antonio, and Fort Huachuca.

The PAL project was moderately impacted by the government travel restriction throughout the PEP reporting period. While occupancy and total revenue were lower than budgeted, the reduced demand was mitigated through operating expense savings allowing the portfolio to outperform pro forma financial expectations.

Guest satisfaction through the fourth quarter of FY13, measured by a total of 10,552 survey responses, averaged an "Excellent" score of 3.8 (out of 5) for the portfolio. It is anticipated that as new construction and branding of hotels is completed, the guest satisfaction rate will continue to rise.

V. Serving Tenant Members

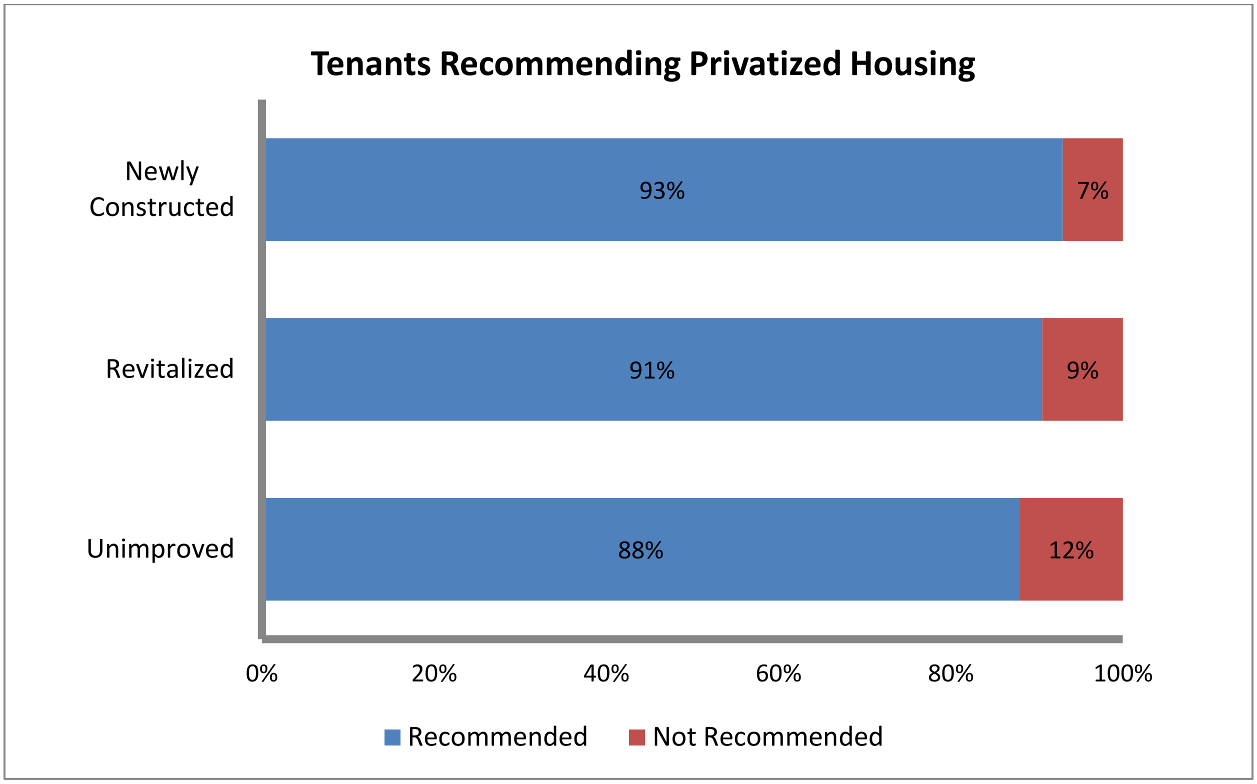
As the Services learn more about military members' housing needs, they actively make changes to improve Service members' housing experience. Because the Services and project owners monitor the needs of members and take steps to address those needs, the MHPI program will continue to provide the housing product and service deserved by our military personnel.

Given DoD's objective of improving the quality of life for its Service members, the degree of satisfaction Service personnel experience in privatized housing is a critical indicator of overall program success. At installations with privatized housing, DoD provides military families with BAH and lets them choose where to reside. The fact that occupancy rates are about 95 percent program-wide demonstrates a high level of Service member satisfaction and overall success in providing suitable and desirable housing.

The Services and project owners conduct tenant surveys to help assess the quality of privatized housing. To help interpret results, the Services and developers code surveys based on whether the respondent resides in a newly constructed or renovated home, or in an un-renovated home. OSD expects that this coding of survey results will continue until the completion of the initial development periods for most projects. The PEP includes the results of additional tenant survey questions designed to assess Service member satisfaction with their housing experience.

The following graph exhibits the satisfaction results received for the program for this reporting period.

Exhibit C



As would be expected, satisfaction was highest among those living in newly constructed homes. Satisfaction was slightly lower for tenants living in renovated and unimproved homes, but still higher than historical levels. As anticipated, the divergence in satisfaction between the different housing types is growing smaller as the program's IDP comes closer to its end. There is currently a five percent satisfaction divergence between housing types; there was an eight percent divergence four years ago and a 13 percent divergence seven years ago. In addition, the precise approval percentage (demonstrated above in Exhibit C) is not as important as an increasingly positive trend in approval as the program matures.

VI. Additional Appendices

Appendices, other than those already referenced, have been included at the end of this report to provide additional information on the MHPI program. A topical listing of all the appendices included in the report is provided in the table of contents.

Appendix 1: Acronyms

Below is an alphabetical list of acronyms that appear in this report.

Acronym	Definition
AETC	Air Education and Training Command
AFB	Air Force Base
AMC	Air Mobility Command
AMCC	Atlantic Marine Corps Communities (aka CLCPS)
BAH	Basic Allowance for Housing
BLB	Barksdale AFB, Langley AFB, Bolling AFB
BRAC	Base Realignment and Closure
CR&R	Capital Repair & Replacement
DCR	Debt Coverage Ratio
DoD	Department of Defense
FY	Fiscal Year
IDP	Initial Development Period
JBSA	Joint Base San Antonio
MC	Marine Corps
MCAGCC	Marine Corps Air Ground Combat Center
MCAS	Marine Corps Air Station
MCB	Marine Corps Base
MCLB	Marine Corps Logistics Base
MCRD	Marine Corps Recruiting Depot
MHPI	Military Housing Privatization Initiative
NAS	Naval Air Station
NAS JRB	Naval Air Station – Joint Reserve Base
NC	Naval Complex
NOI	Net Operating Income
NOLA	New Orleans, LA
NPS	Naval Post Graduate School
NS	Naval Station
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
PAL	Privatization of Army Lodging
PEP	Program Evaluation Plan
PRB	Prepared Return Balance

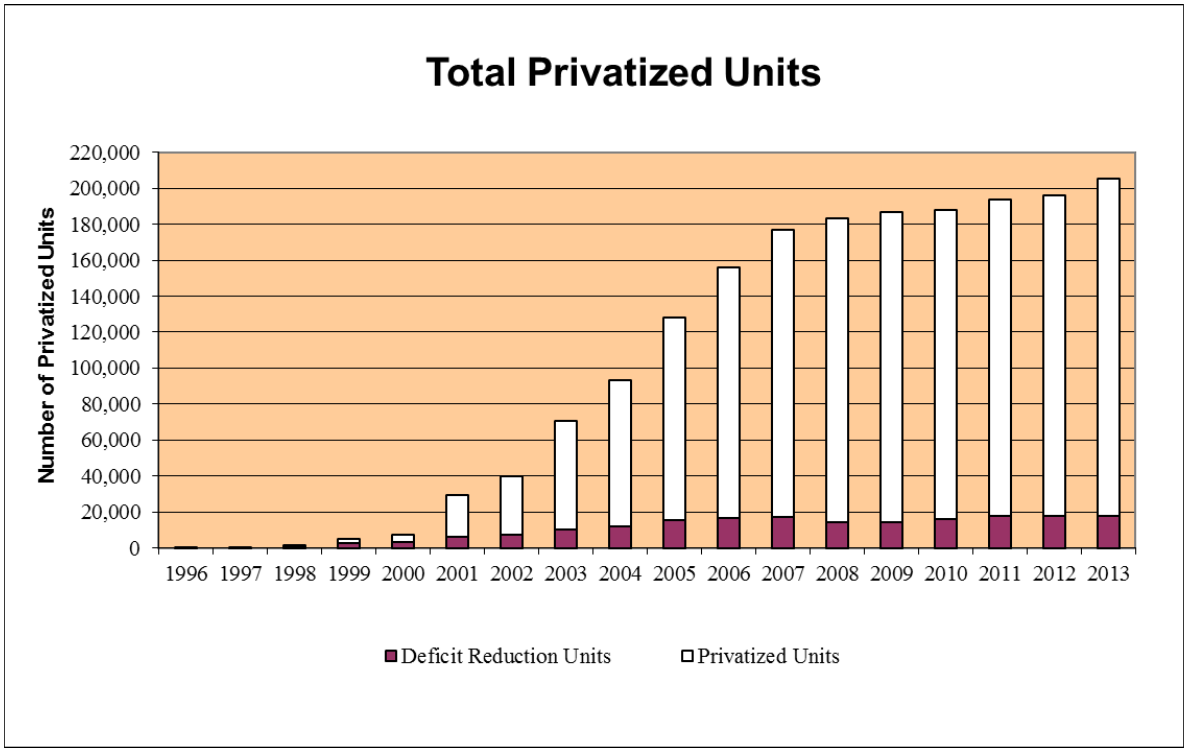
Appendix 1 (Cont.)

Acronym	Definition
PE/QU/YU	MCB Pendleton/MCB Quantico/MCAS Yuma
PPV	Public Private Venture
RCI	Residential Communities Initiative
RECP	RCI Energy Conservation Program
SOTX	South Texas
UA	Utility Allowance
UOQ/USEQ	Unaccompanied Officer Quarters/Unaccompanied Senior Enlisted Quarters
UH	Unaccompanied Housing

Appendix 2: Program Implementation Overview

As of the September 2013 PEP reporting period, a total of 109 privatized housing projects and project phases have been awarded across the DoD portfolio. A chronological list of the awarded projects is provided in Appendix 6.

The list provided in Appendix 6 represents both partial and full-base projects, with project scopes ranging in size from 150 homes to over 10,000 homes, and project development costs ranging from approximately $14 million to nearly $2.3 billion. In total, DoD has privatized over 98 percent of its domestic family housing. The graph below shows the program's accumulative number of privatized housing units on a yearly basis.

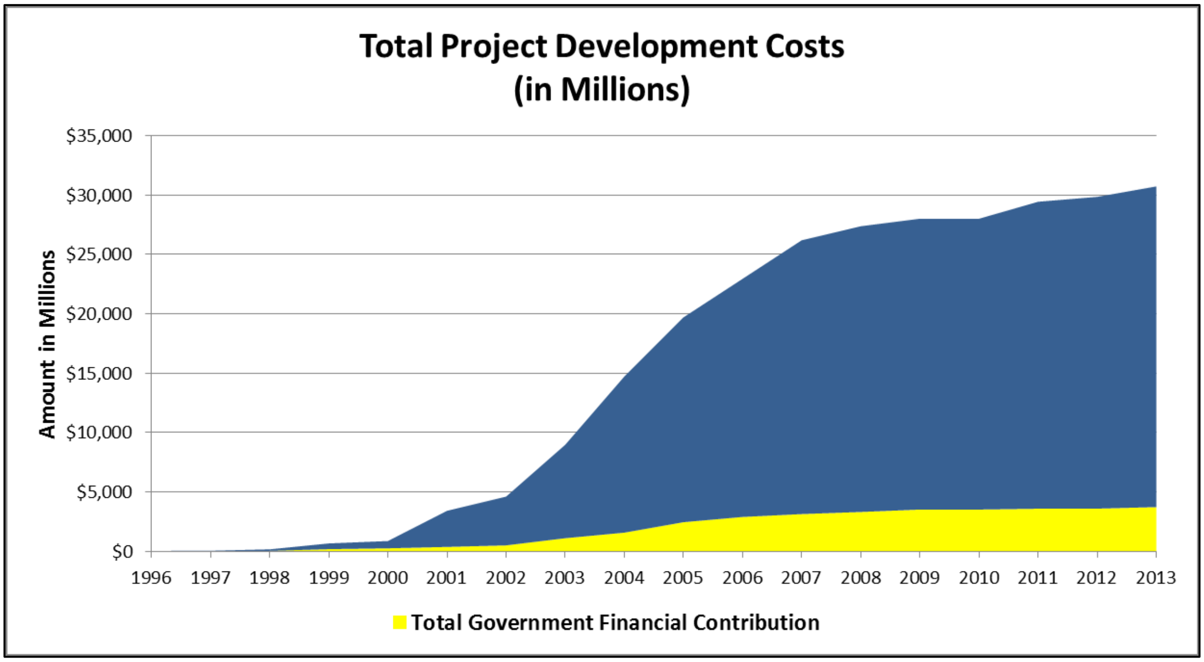


Total Government vs. Private Dollars

Through September 30, 2013, the Military Services have awarded 109 military family housing privatization projects, some of which were multiple phases at the same location. The Government has contributed slightly more than $3.8 billion to support privatization, primarily through equity investments and funding the scored costs for Government Direct Loans and Government Loan Guarantees. For this Government contribution, the program is receiving almost $31 billion in project development.

The following graph provides a view of the Government contribution versus the overall privatized military family housing development costs.

Appendix 2 (Cont.)



Appendix 3: Tenant Waterfall

Service	Installation	Military Families	Other Tenants	Other Tenants as % of Total	Non-Military	General Public
Army	Fort Carson	3,175	-	0%	No	No
	Fort Hood	5,975	-	0%	No	No
	Joint Base Lewis-McChord	4,914	19	0%	No	No
	Fort Meade	2,000	479	19%	Yes	No
	Fort Bragg	5,963	1	0%	No	No
	Presidio of Monterey	1,625	547	25%	Yes	Yes
	Fort Stewart	3,486	8	0%	Yes	No
	Fort Campbell	4,343	1	0%	No	No
	Fort Belvoir	2,030	18	1%	Yes	Yes
	Fort Irwin/Moffett/Camp Parks	2,617	58	2%	Yes	Yes
	Fort Hamilton	149	41	22%	Yes	Yes
	Fort Detrick	439	96	18%	Yes	Yes
	Fort Polk	3,081	129	4%	No	No
	Fort Shafter / Schofield Barracks	7,195	147	2%	Yes	Yes
	Forts Eustis/Story	996	-	0%	No	No
	Fort Leonard Wood	1,701	2	0%	No	No
	Fort Sam Houston	881	8	1%	No	No
	Fort Drum	3,772	1	0%	No	No
	Fort Bliss	3,976	86	2%	No	No
	Fort Benning	3,263	116	3%	Yes	No
	Fort Leavenworth	1,321	158	11%	No	No
	Fort Rucker	1,034	197	16%	No	No
	Fort Gordon	1,002	18	2%	No	No
	Fort Riley	3,731	1	0%	No	No
	Carlisle Brks / Picatinny Ars	272	12	4%	Yes	Yes
	Redstone Arsenal	135	173	56%	Yes	No
	Fort Knox	2,144	105	5%	No	No
	Fort Lee	1,402	7	0%	Yes	Yes
	West Point	690	50	7%	Yes	Yes
	Fort Jackson	717	94	12%	Yes	No
	Fort Sill	1,646	11	1%	Yes	No
	Fort Huachuca / Yuma PG	1,179	99	8%	Yes	Yes
	Forts Wainwright/Greely	1,640	43	3%	Yes	Yes
	Aberdeen Proving Ground	391	312	44%	Yes	No

Appendix 3 (Cont.)

Service	Installation	Military Families	Other Tenants	Other Tenants as % of Total	Non-Military	General Public
Air Force	Robins AFB I	220	361	62%	Yes	Yes
	Dyess AFB	143	230	62%	Yes	Yes
	Joint Base Elmendorf-Richardson I	805	-	0%	No	No
	Wright-Patterson AFB	869	591	40%	Yes	Yes
	Kirtland AFB	810	265	25%	Yes	Yes
	Buckley AFB	302	36	11%	No	No
	Joint Base Elmendorf-Richardson II	1,170	-	0%	No	No
	Joint Base Pearl Harbor-Hickam	2,088	14	1%	No	No
	Offutt AFB	1,211	523	30%	Yes	Yes
	Hill AFB	925	120	11%	Yes	Yes
	Dover AFB	877	77	8%	No	No
	Scott AFB	1,315	187	12%	Yes	Yes
	Nellis	1,158	-	0%	No	No
	Joint Base McGuire-Dix-Lakehurst	2,019	144	7%	Yes	No
	AETC Group I	2,073	340	14%	Yes	Yes
	U.S. Air Force Academy	291	120	29%	Yes	No
	ACC Group II	2,087	58	3%	No	No
	Tri-Group	1,235	150	11%	Yes	No
	BLB	2,462	49	2%	Yes	No
	Robins AFB II	213	24	10%	Yes	No
	AETC Group II	1,873	209	10%	Yes	No
	Vandenberg AFB	899	43	5%	No	No
	AMC East	1,174	173	13%	Yes	No
	AMC West	2,527	16	1%	Yes	No
	Falcon Group	2,088	538	20%	Yes	Yes
	Lackland AFB	768	10	1%	No	No
	Joint Base Elmendorf-Richardson III	1,202	-	0%	No	No
	Southern Group	1,879	164	8%	Yes	Yes
	Western Group	2,910	22	1%	No	No
	Northern Group	3,922	33	1%	No	No

Appendix 3 (Cont.)

Service	Installation	Military Families	Other Tenants	Other Tenants as % of Total	Non-Military	General Public
Navy/ Marines	Everett I	NA	NA	NA	No	No
	Hawaii Overview	6,463	17	0%	Yes	Yes
	Kingsville I	55	332	86%	Yes	Yes
	Everett II	199	75	27%	Yes	Yes
	Kingsville II	52	87	63%	Yes	Yes
	Midatlantic	5,402	139	3%	Yes	Yes
	San Diego	12,279	81	1%	Yes	Yes
	New Orleans	703	174	20%	Yes	Yes
	CP I	691	-	0%	No	No
	CP II	10,550	19	0%	Yes	Yes
	Midwest	1,286	350	21%	Yes	Yes
	Northeast	2,350	817	26%	Yes	Yes
	Northwest	2,745	55	2%	Yes	Yes
	South Texas	227	172	43%	Yes	Yes
	Southeast	3,932	695	15%	Yes	Yes
	AMCC	7,047	370	5%	Yes	Yes

Appendix 4: 2884 (c) Report

Background

Section 2884 (c) of U.S. code, title 10 requires the Secretary of Defense to submit annual reports to congressional defense committees evaluating the status of military housing privatization projects. The law lists six areas which must be covered. These are:

(1) An assessment of the backlog of maintenance and repair at each military housing privatization project where a significant backlog exists, including an estimation of the cost of eliminating the maintenance and repair backlog.

(2) If the debt associated with a privatization project exceeds net operating income or the occupancy rates for the housing units are below 75 percent for more than one year, the plan developed to mitigate the financial risk of the project.

(3) An assessment of any significant project variances between the actual and pro forma deposits in the recapitalization account, to specifically include any unique variances associated with litigation costs.

(4) The details of any significant withdrawals from a recapitalization account, including the purpose and rationale of the withdrawal and, if the withdrawal occurs before the normal recapitalization period, the impact of the early withdrawal on the financial health of the project.

(5) An assessment of the extent to which the information required to comply with paragraphs (1) through (4) has been requested by the Secretaries, but has not been made available.

(6) An assessment of cost assessed to members of the armed forces for utilities compared to utility rates in the local area.

Additional Specifications

In order to limit interpretation and ensure consistent responses from the military Services, the questions required further specificity. OSD provided the following clarifications of the questions to the Services for their response:

(1) For those projects that have a 20 percent or greater backlog of the number of maintenance and repair items as of the end of the reporting period, provide the name of the project and give an estimate of the cost to eliminate their outstanding maintenance and repair backlog. For the purpose of this report, a backlog of maintenance and repair is defined as the number of items which have not been responded to or completed within a project's specific maintenance time standards.

Appendix 4 (Cont.)

(2) For those projects which have completed their initial development periods (IDPs), provide a list of the projects that have an average monthly debt coverage ratio (DCR), for either the senior loan or the combined first and second mortgages, that has been less than 1.0 for more than one year or has had an average monthly occupancy of below 75 percent for more than one year. For each of those projects listed, provide the relevant DCR and occupancy at the end of the current reporting period and describe the plan developed to mitigate the financial risk of the project.

(3) The amount of anticipated deposits in the recapitalization account is quantified in the project's latest agreed to pro forma. For those projects that have completed their IDPs, list the projects that have a negative variance in their current reporting period's deposits of greater than 25 percent from its pro forma. For those projects listed, provide the percentage variance from pro forma and a detailed explanation for the cause of the negative variance (to specifically include any unique variances associated with litigation costs).

(4) List all projects where a withdrawal of 20 percent of greater of the current recapitalization account balance was made for a single purpose (e.g. whole house renovations, deficit reduction units, etc.) this reporting period. Provide the details of any such withdrawal, including the purpose and rationale of the withdrawal and, if the withdrawal occurs before the planned recapitalization period, the impact of the early withdrawal on the financial health of the project.

(5) If the information requested of the Service Secretaries in items (1) though (4) cannot or will not be provided in the requested timeframe, please explain the reasons why.

(6) Describe in one or two paragraphs how tenants, once the privatized units are individually metered, are assessed their individual unit utility usage and cost. Also include how any utility reimbursement or additional costs that accrue to the individual tenant are handled.

Military Service Reports

Attachments 1 through 3 contain the required reports from the Army, Navy and Marine Corps, and Air Force, respectively.

Appendix 4 (Cont.)

Attachment 1: U.S. Army
10 U.S.C. 2884C Annual Report on Privatized Housing

1. An assessment of the backlog of maintenance and repair at each military housing privatization project where a significant backlog exists, including an estimation of the cost of eliminating the maintenance and repair backlog.

   ARMY RESPONSE:
   As of 31 December 2013, no RCI projects have a backlog of maintenance and repair items that exceeds 20 percent of the project's maintenance and repair items for calendar year 2013.

2. If the debt associated with a privatization project exceeds net operating income or the occupancy rates for the housing units are below 75 percent for more than one year, the plan developed to mitigate the financial risk of the project.

   ARMY RESPONSE:
   For the calendar year 2013, the Fort Irwin / Moffett FAF / Parks RFTA project had an average DCR of 0.97 and a Family Housing occupancy rate of 93.9 percent (98.7 percent for UPH). The Project's DCR has fluctuated around 1.00 and the Project has made all of its scheduled debt payments. The lower-than-projected DCR is driven by shortfalls in BAH relative to inflation and relative to pro forma projections. BAH growth was flat or negative for several years beginning in 2008 as economic conditions in nearby Barstow declined significantly and has only partially recovered since then. Even after accounting for an almost 6 percent increase in 2014 BAH, the Fort Irwin BAH would have to increase by another 15 percent to equal the inflation-adjusted BAH from 2005 (the first full year of operation). The resulting revenue shortfall as compared to pro forma is approximately $5M in 2014 and the cumulative shortfall since 2008 is approximately $24M. To improve its DCR performance, the Project has cut back on operating expenses by reducing services and deferring maintenance where possible. Although some maintenance is being deferred, it is still being performed; any resulting backlogs are not considered to be very significant. In addition, Fort Irwin/ Moffett FAF/ Parks RFTA is still in its IDP; its pro forma has no scheduled deposits to its recapitalization account at this time.

3. An assessment of any significant project variances between the actual and pro forma deposits in the recapitalization account, to specifically include any unique variances associated with litigation costs.

Appendix 4 (Cont.)

ARMY RESPONSE:
As of 31 December 2013, the recapitalization account for the Fort Meade RCI Family Housing project has 72 percent of its anticipated balance. The account balance does not include cash flow generated in 2013 that is being retained in the Meade NOI subaccount until after the completion of the 2014 audit per the Project's legal agreements.

As of 31 December 2013, the recapitalization account for the Fort Gordon RCI Family Housing project has 68 percent of its anticipated balance. This is a timing issue: the account balance is temporarily trailing pro forma monthly expectations as deposits to the recapitalization account are made annually at the end of a calendar year per the Project Company's Operating Agreement.

4. The details of any significant withdrawals from a recapitalization account, including the purpose and rationale of the withdrawal and, if the withdrawal occurs before the normal recapitalization period, the impact of the early withdrawal on the financial health of the project.

ARMY RESPONSE:
During calendar year 2013, the Army approved Major Decisions for out-year development using some or all of the net cash flow of three post-IDP projects that would otherwise be deposited to the Project's recapitalization account: Fort Drum; Fort Eustis / Fort Story; and Fort Hamilton. The Army grants approval only if proposed recapitalization account uses are determined to be the best course of action to protect and preserve the financial health of the Project.

Rationale for Fort Drum withdrawal: Providing funding source to pay for Project Sustainment Plan (PSP) provisional sum increase due to site work cost increases, as office building site changed from original PSP site. It was discovered that building on the original site would have required more infrastructure and foundation work than initially anticipated, which prompted the site change.

Rationale for Fort Eustis / Fort Story withdrawal: Providing one of the funding sources to demolish and rebuild Marseilles Village and to include an additional executive house based on force structure. The rebuilding of Marseilles Village had been planned for the IDP, but was delayed.

Rationale for Fort Hamilton withdrawals: Providing one of the funding sources to complete bump-out renovations to enlarge existing homes and to fund a solution for unsuitable soils via piling foundation and electrical upgrades.

None of these withdrawals reduced the recapitalization accounts significantly below their pro forma levels. Recapitalization account funds were used because the work either increased the scope of the original project or resulted from justifiable cost increases in previously-approved plans.

Appendix 4 (Cont.)

5. An assessment of the extent to which the information required to comply with paragraphs (1) through (4) has been requested by the Secretaries, but has not been made available.

ARMY RESPONSE:
The Army has provided responses to fulfill the 2884(c) information requirements.

6. An assessment of cost assessed to members of the armed forces for utilities compared to utility rates in the local area.

ARMY RESPONSE:
As of September 2013, over 78 percent of occupied, privatized homes are in the RCI Energy Conservation Program (RECP), either in mock or live billing. Residents are billed for excess usage and receive rebates for decreased consumption of their electric and natural gas utilities.

The utility baseline is carefully measured and based on an average cost of energy consumption for electricity and natural gas for like-type homes within the Project. A buffer of normally 5 to 10 percent, contingent on the RCI partner's business case analysis, may be added to the baseline. In accordance with RECP policy, if a buffer is in use either above or below the baseline, billing and rebates are calculated from usage above and below the buffer limits, respectively. Residents who are above the baseline plus buffer pay the difference out of pocket; residents below the baseline plus buffer receive a rebate. Normally, about 30 percent of residents are above the baseline, 30 percent are below and receive a rebate, and 40 percent have no impact. All projects adjust the monthly baseline by using a calculation which includes historical consumption as well as commodity costs. Vacant/unoccupied homes are not included in the calculation.

No resident is unduly treated because of the condition or size of their home since their usage is compared to other residents' usage in similar, like-type homes. For installations where large numbers of spouses stay home, some of that generally higher usage will translate into a higher overall average for the baseline. RCI partners provide specialized attention to those residents whose bills are significantly higher than average, regularly assisting residents by providing in-home energy audits and technical information. Dispute resolution and analysis of utility charges is available for all residents through the Project's community management office. In addition, residents may qualify for exceptions to the policy where warranted (e.g., exceptional family members, special equipment, non-standard homes, etc.).

Appendix 4 (Cont.)

Attachment 2: U.S. Navy and Marine Corps 10 U.S.C. 2884C Annual Report on Privatized Housing

1. An assessment of the backlog of maintenance and repair at each military housing privatization project where a significant backlog exists, including an estimation of the cost of eliminating the maintenance and repair backlog.

   NAVY AND MARINE CORPS RESPONSE:
   There are no projects with significant backlogs.

2. If the debt associated with a privatization project exceeds net operating income or the occupancy rates for the housing units are below 75 percent for more than one year, the plan developed to mitigate the financial risk of the project.

   NAVY AND MARINE CORPS RESPONSE:
   There are no projects which have completed their IDPs and meet the conditions in the question of having a DCR less than 1.0 for over a year or had average monthly occupancy rates below 75 percent for over a year.

3. An assessment of any significant project variances between the actual and pro forma deposits in the recapitalization account, to specifically include any unique variances associated with litigation costs.

   NAVY AND MARINE CORPS RESPONSE: There are five projects with significant variances from their expected pro forma deposits: the Ohana Military Communities, Mid Atlantic Military Family Communities, Northeast Housing, Hampton Roads, and Pacific Beacon. The Ohana Military Communities and Mid Atlantic Military Family Communities are family housing privatization projects; they had shortfalls in their past year's deposits, but overall their reinvestment account balances are above pro forma expectations. Northeast Housing has some potential longer-term issues. Hampton Roads and Pacific Beacon are the two bachelor housing privatization projects and have more serious financial concerns. A discussion of each of the projects follows:

   Ohana Military Communities, LLC (Navy, Hawaii)

   In the past year, the Ohana Military Communities deposited $4.6 million into its reinvestment account, which was 43 percent of its planned deposit. However, the total balance in the reinvestment account is $125 million, which is 162 percent above its pro forma estimate.
   Last year's reduced deposits were due to greater than expected utility costs and capital expenditures. The privatized housing project purchases its electricity from the Navy working

capital fund. Those electricity rates have almost doubled between FY 2007 and FY 2013 and experienced a spike in 2013. The utility component of BAH is based on local municipal utility rates, which have increased far less. The difference in utility cost and BAH rate increases has resulted in the smaller deposit. Nevertheless, construction savings during the IDP has resulted in the total balance of the reinvestment account being more than twice as much as the initial pro forma estimate.

Mid Atlantic Military Family Communities LLC (Navy)

In the past year, the Mid Atlantic Military Family Communities deposited just $600,000 into its reinvestment account, which was less than 10 percent of the planned pro forma deposit. This was primarily due to increased maintenance and capital expenditures related to mold in housing units in Norfolk. In addition, the project has incurred at least $2.7 million in legal expenses associated with on-going litigation. The burden on the project is expected to diminish as remediation work is completed, but the outcome of pending litigation will also be an important factor. Nevertheless, the total balance in the reinvestment account is currently about 122 percent higher than the pro forma estimate for this point in the project.

Northeast Housing, LLC

Revenues to Northeast Housing have suffered from reduced rents. The average rent is currently about $200 per month less than projected. In some locations, the developer has had to charge rents that are lower than the BAH rates in order to maintain occupancy. In the past year, $2.5 million has been deposited to the reinvestment account; this is 53 percent of the expected pro forma contribution. Similarly, there is a $23 million total balance in the reinvestment account, which is 56 percent of the projected pro forma amount.

Homeport Hampton Roads PPV, LLC and Pacific Beacon, LLC

The Hampton Roads and Pacific Beacon (San Diego) projects are privatized bachelor housing, using pilot authority contained in 10 USC 2881a. Both projects have experienced reduced revenues. At Hampton Roads, the problem was caused by lower than expected BAH and occupancy rates. At Pacific Beacon, the problem has been reduced rents from a more junior mix of tenants than expected in the pro forma; in addition the project has experienced unexpectedly high utility costs, specifically for water and sewer.

Despite the long-term fiscal challenges, resident satisfaction and occupancy has remained extremely high in both projects. There are sizable waiting lists for Service members to get into this housing.

Each project has substantial deferred fees from their IDPs and initial operating periods. Hampton Roads has deferred fees of $9 million and Pacific Beacon has deferred fees of $13 million. Because of this, Pacific Beacon does not have any funds currently in its reinvestment account, while its pro forma estimate was $10.3 million. Hampton Roads has $300,000 in its reinvestment account which is only 6 percent of its pro forma estimate.

Appendix 4 (Cont.)

Last year, the Navy requested and received a special partial BAH rate associated with junior enlisted occupancy at Pacific Beacon. This will more closely align actual rents with the market rents for comparable housing in the San Diego area. The Navy will evaluate the effect this will have on the project's finances. The Navy will examine additional actions for both privatized bachelor housing projects.

4. The details of any significant withdrawals from a recapitalization account, including the purpose and rationale of the withdrawal and, if the withdrawal occurs before the normal recapitalization period, the impact of the early withdrawal on the financial health of the project.

   NAVY AND MARINE CORPS RESPONSE:
   There are no projects with significant withdrawals in the reporting period.

5. An assessment of the extent to which the information required to comply with paragraphs (1) through (4) has been requested by the Secretaries, but has not been made available.

   NAVY AND MARINE CORPS RESPONSE:
   The Navy and Marine Corps have provided responses to fulfill the 2884(c) information requirements.

6. An assessment of cost assessed to members of the armed forces for utilities compared to utility rates in the local area.

   NAVY AND MARINE CORPS RESPONSE:

   a. All privatized housing units are combined into like type groups based on key criteria that affect energy usage such as location, size, and construction and component characteristics.

   b. Each month the average usage for the like type group is calculated based on the reported usage of individually metered homes. The average usage is based on fully occupied homes and the calculation excludes the top and bottom 5 percent of users (except for like type groups of less than 20 homes when all occupied homes are included in the average).

Appendix 4 (Cont.)

c. A buffer of 10 percent above and below is applied to the average to create a Normal Usage Band. Residents with usage under the normal usage band receive a credit for their conservation, and those over the normal usage pay for their excess consumption. Residents who earn a credit will be paid by check when their accumulated credit balance is greater than $25.00. Residents may elect to roll over their utility credits to bank the money or to offset costs if future monthly usage is above the normal usage band. Conversely residents over the normal usage band must pay when their accumulated amount owed exceeds $25.

Appendix 4 (Cont.)

Attachment 3: U.S. Air Force
10 U.S.C. 2884C Annual Report on Privatized Housing

1. An assessment of the backlog of maintenance and repair at each military housing privatization project where a significant backlog exists, including an estimation of the cost of eliminating the maintenance and repair backlog.

   AIR FORCE RESPONSE:
   There are no projects with significant backlogs.

2. If the debt associated with a privatization project exceeds net operating income or the occupancy rates for the housing units are below 75 percent for more than one year, the plan developed to mitigate the financial risk of the project.

   AIR FORCE RESPONSE:
   There are no projects which have completed their IDPs and meet the conditions in the question of having a DCR less than 1.0 for over a year or had average monthly occupancy rates below 75 percent for over a year.

3. An assessment of any significant project variances between the actual and pro forma deposits in the recapitalization account, to specifically include any unique variances associated with litigation costs.

   AIR FORCE RESPONSE:

   In its MHPI projects, the Air Force generally plans for a mid-term renovation of the housing around year 25 of the deal. The expected costs of the renovations are estimated based on the age of the housing and its expected condition, taking into account initial construction and renovation work performed during the IDP.

   The mid-term renovations are expected to be funded from two sources:
   a. Private refinancing based on cash flow available to support a new loan.
   b. Accumulated deposits from a reinvestment account funded by profits generated from rental income.

Appendix 4 (Cont.)

Revenues from the housing projects get deposited into the reinvestment accounts after other obligations are paid. For some projects, these obligations include a "preferred return balance" (PRB) which is owed to the owner for equity contributions to the project. In some cases, the IDP may have been more expensive than estimated due to unexpected costs or lower than expected initial revenues; in these cases, the developer defers some fees which must also be paid before profits are deposited into the reinvestment account.

The Air Force has identified 5 projects with significant current variances with the estimated pro forma deposits to their reinvestment accounts. These projects are: AETC Group II, Buckley AFB, Dover AFB, Nellis AFB, and Scott AFB.

AETC Group II

AETC Group II consists of family housing at Columbus AFB, MS; Goodfellow AFB, TX; Laughlin AFB, TX; Maxwell AFB, AL; JBSA-Randolph, TX; and Vance AFB, OK. Currently, there are no funds in the reinvestment account and a PRB of $8.1 million which, under the deal terms, must be paid before deposits begin to enter the reinvestment account. The original pro forma anticipated that a relatively small balance of $347,000 would be in the reinvestment account by March 2014 and that deposits would accelerate in future years.

Current Air Force estimates forecast that the reinvestment account will have a positive balance by the end of 2015 with deposits accelerating in future years. The Air Force estimates that between the reinvestment account and refinancing capacity, the project will be able to fund its full sustainment and mid-term renovation needs.

Buckley AFB, CO

Buckley AFB experienced construction delays, higher than anticipated utility costs, and lower than expected BAH rates during the IDP. Because of this, there is $10.7 million in deferred fees, which must be paid before deposits are made to the reinvestment account. The pro forma had initially estimated a relatively small balance of $83,400 in the reinvestment account by March 2014.

The current 2014 Air Force forecast estimates that the deferred fees will never be paid off, so the reinvestment account will likely always have a zero balance. However, the pro forma also anticipated that the reinvestment account would only fund a portion of the mid-term renovations. Additional funds will be available for the project from private refinancing, the project's CR&R deposits and Quality of Life Enhancement Account. Because of these additional sources of funds, we expect that the project will be able to pay for its full sustainment needs and 76 percent of its mid-term renovation costs.

Appendix 4 (Cont.)

Dover AFB, DE

During its IDP, Dover AFB experienced lower than expected occupancy and higher than expected administrative and utility costs. Because of this, the project currently has $11.2 million in deferred fees which must be paid before profits get deposited into its reinvestment account. The pro forma had anticipated a relatively low balance of $313,600 in the reinvestment account by March 2014. The current Air Force forecast anticipates that there will be sufficient funds to pay off the deferred fees and begin making reinvestment account deposits by 2022. The forecast also estimates that there will be sufficient additional funds to fully cover the mid-term renovation starting in 2030.

Nellis AFB, NV

The project at Nellis AFB has a substantial funding shortfall. BAH rates have been about 15 percent less than pro forma expectations. Utility expenses have been 30 percent higher than expectations. Administrative and operations and maintenance expenses have cost 27 percent more than expectations. The project has a PRB of $19 million which must be paid before funds can enter the reinvestment account. The pro forma had estimated a reinvestment account balance of $203,300 in March 2014.

In addition, there is a senior loan and a government direct loan which begin to amortize in 2014, increasing annual debt service costs by $1.8 million. The project is not currently generating enough cash flow to make these payments and is in risk of default. The project owner has voluntarily contributed $2.3 million of additional equity to temporarily stabilize the project and there have been some reductions in operating expenses.

The 2014 Air Force forecast estimates that the project would be able to fund its sustainment needs, but would have no funds for its mid-term renovations. A long-term solution will likely require some form of financial restructuring.

Scott AFB, IL

Scott AFB has had severe problems with net operating income, especially during its IDP. At that time, it had higher costs and lower occupancy than expected. Although occupancy is now strong and costs are in line with portfolio averages, the project has not been able to catch up. The applicability of local taxes has also been an issue, and is being challenged by the owner.

There is over $60 million owed in deferred fees and PRB, to be resolved before any profits are deposited into the reinvestment account. The original pro forma anticipated there would have been $372,300 in the reinvestment account by March 2014. The 2014 Air Force forecast expects that the fees and PRB owed will never be paid off and that funds will not be available for the mid-term renovation in year 2031. Some sort of financial restructuring will be mandatory for this project.

Appendix 4 (Cont.)

4. The details of any significant withdrawals from a recapitalization account, including the purpose and rationale of the withdrawal and, if the withdrawal occurs before the normal recapitalization period, the impact of the early withdrawal on the financial health of the project.

   AIR FORCE RESPONSE:
   There are no projects with significant withdrawals in the reporting period.

5. An assessment of the extent to which the information required to comply with paragraphs (1) through (4) has been requested by the Secretaries, but has not been made available.

   AIR FORCE RESPONSE:
   The Air Force has provided responses to fulfill the 2884(c) information requirements.

6. An assessment of cost assessed to members of the armed forces for utilities compared to utility rates in the local area.

   AIR FORCE RESPONSE:
   Residents are billed on how their consumption compares to the Utility Allowance (UA) calculated for their unit type (e.g., new 2-bedroom single-story home, or renovated 4-bedroom two-story home). The UA is calculated on a 5-year rolling average for that unit type. Once the average is calculated, a 10 percent buffer is applied to protect residents from swings in utility rates and consumption due to extreme weather. The UA is 110 percent of the rolling, 5-year average. The UA is adjusted annually and approved by the Air Force.

   Prior to full implementation the Project Owner (PO) starts a mock utility billing process to provide tenants a monthly snapshot of their utility usage and costs prior to live billing. This gives tenants a chance to review their consumption and focus on strategies to adjust their energy behaviors before live billing begins. The PO provides tenants 6 months to one year of mock billing. After the mock billing cycle is complete, tenants receive their actual bill and use their UA to pay their utility consumption costs either to or through the PO or directly to a utility service provider.

   If the resident consumes more electricity or natural gas than the UA, the PO will track the amount in excess of the UA and send a bill to the resident once the amount owed exceeds $50. Similarly, if the resident consumes less than the UA, the PO will track the amount an issue a check to the resident once the amount owed exceeds $50.

   At some installations, residents retain the UA portion of their BAH and pay the utility provider directly based on the monthly bill.

Appendix 5: Loan Guarantees

A limited loan guarantee addresses three events that could affect the available tenant supply of eligible personnel at an installation and therefore potentially affect the financial viability of the project. These three events are: downsizing of a military installation; prolonged deployment; and base closure.

When the guarantee agreements were executed for seven projects— Fort Carson, Colorado; Fort Polk, Louisiana; Kirtland AFB, New Mexico; Forts Wainwright/Greely, Alaska; and the Air Force's Northern; Continental; and ACC III Grouped projects—the Services identified the baseline number of eligible families used to determine a Guaranteed Threshold event. The threshold rates for these seven projects, which could potentially trigger a guarantee claim, are definitive reductions of eligible military families from the identified baseline numbers. The threshold rate at Robins AFB I, Georgia, uses a sliding scale based on the occurrence of one of two events—a percentage drop of eligible families in any 12-month period; or, a drop in the number of eligible families below a ratio of families to privatized homes (1.5:1). The threshold rate for Wright-Patterson AFB, Ohio, is solely a drop in the number of eligible families below a ratio of families to privatized homes (1.5:1).

The BRAC 2005 legislation produced military personnel tenant changes and other adjustments at many military installations. The properties identified for closure on the BRAC list did not include any MHPI projects with limited loan guarantees. The Services will evaluate and closely watch the military installations that were included on the BRAC list and involve major realignment, both increases and decreases.

The possibility of a reduction in eligible personnel due to the current extent of deployment actions continues to be of interest. A reduction in eligible personnel could affect projects that carry a limited loan guarantee because of the potential for a mortgage payment default. If this were to occur, the Service would require: the borrower to demonstrate that the threshold reduction in the percentage of eligible personnel had occurred and, despite all appropriate action taken by the owner to remedy the problem (including full use of the tenant waterfall), that this Government action had led to a mortgage payment default. The borrower could then file a guarantee claim.

The following table summarizes the baseline number of eligible families (starting point for the threshold rate calculation), current eligible families, and defined threshold reduction percentage for each of the active guaranteed loans, and, if applicable, the baseline and current ratios of eligible military families to privatized homes for the six currently executed limited loan guarantee agreements.

Appendix 5 (Cont.)

Loan Guarantee Thresholds, Threshold Ratios and Status									
MHPI Project	**Fort Carson**	**Robins AFB I**	**Fort Polk**	**Wright-Patterson AFB**	**Kirtland AFB**	**Fort Wainwright/ Greely**	**Northern Group**	**Continental Group**	**ACC Group III**
Number of Privatized Housing Units	3,456	670	3,773	1,536	1,078	1,815	4,546	3,862	858
Baseline Date	Nov-99	Sep-11	Sep-04	Dec-06	Aug-06	Apr-09	Aug-13	Sep-13	N/A
Eligible Families as of Baseline Date	9,649	3,513	6,215	N/A	2,183	4,449	12,055	15,329	4,911
Eligible Families as of 31 March 2012	13,704	4,342	5,249	4,404	3,174	4,063	12,055	15,329	4,911
Guarantee Threshold	-40%	-30%	-30%	N/A	-25%	-33%	-30%	-30%	-30%
Current Change	42%	24%	-16%	N/A	45%	-9%	0%	0%	0%
Threshold Ratio	N/A	1.5:1	N/A	1.5:1	N/A	N/A	N/A	N/A	N/A
Current Ratio	N/A	4.0:1	N/A	2.9:1	N/A	N/A	N/A	N/A	N/A

Notes:
1. Guarantee Threshold is the percentage reduction in eligible personnel that triggers a Guaranteed Threshold event.
2. The baseline date reflects the date the agreement was reached for the parameters that could trigger an event.
3. Current Change reflects the increase or decrease in the number of eligible personnel at the base within a certain timeframe. The timeframe for which the percentage change is measured for Robins AFB I is based on a sliding 12-month timeframe. For this reporting period, that would be from 1 October 2012 to 30 September 2013. For Fort Carson, Fort Polk, Wright-Patterson, Kirtland, Forts Wainwright/Greely, Northern Group, Continental Group and ACC Group the percent change is based on the original Guaranteed Loan Baseline Date and the end of current PEP reporting period.
4. Current Ratio is calculated based on the number of "Eligible Families" as of the end of the current PEP reporting period divided by the "Number of Privatized Housing Units." The Threshold Rate for Wright-Patterson AFB is the minimum Threshold Ratio of Eligible Families to privatized homes: a ratio lower than the minimum would trigger a Threshold Ratio event.
5 At Robins AFB I, Georgia, the Threshold Rate uses a sliding scale based on the occurrence of either of two events: a percentage drop of Eligible Families, or a drop in the ratio of Eligible Families to privatized homes.

To date, no project has experienced a Guaranteed Threshold event. Currently two projects—Fort Polk, Louisiana and Forts Wainwright & Greely, Alaska—have eligible populations less than their baseline number. Two projects, Lackland AFB Phase I and Elmendorf AFB I, have retired guarantees. The Air Force negotiated to retire the guarantee at Elmendorf AFB I when the project refinanced in 2004. The Air Force negotiated for the elimination of the guarantee at Lackland AFB Phase I when the project was sold to Balfour Beatty Communities and the scope expanded. Although all nine of the projects with existing loan guarantees are currently healthy in terms of occupancy, the Services will continue to monitor them to assess the impact of BRAC, ongoing long-term deployments, and Service realignments.

Appendix 6: Privatized Projects Awarded

The following is a chronological list of partial and full base housing privatization projects awarded by the Services from 1996 through September 30, 2013.

- Corpus Christi/Kingsville I, TX-Navy
- NS Everett I, WA
- Lackland AFB, TX
- Fort Carson, CO
- Dyess AFB, TX
- Robins AFB I, GA
- NAS Kingsville II, TX
- MCB Camp Pendleton I, CA
- NS Everett II, WA
- Elmendorf AFB I, AK
- San Diego Naval Complex (Ph I), CA *
- NAS JRB New Orleans, LA (NOLA)
- Fort Hood, TX
- South Texas, TX (SOTX)-Navy
- Fort Lewis, WA/McChord AFB, WA
- Fort Meade, MD
- Wright-Patterson AFB, OH
- Tri-Command Military Housing (Beaufort), SC-USMC
- Kirtland AFB, NM
- San Diego Naval Complex (Ph II), CA *
- Fort Bragg, NC
- MCB Camp Pendleton, (Ph II), CA/Quantico, VA *
- Presidio of Monterey/NPS, CA
- Fort Stewart/Hunter Army Airfield, GA
- Fort Belvoir, VA
- Fort Campbell, KY
- Fort Irwin/Moffett Field/Camp Parks, CA
- Hawaii Regional (Ph I), HI-Navy *
- Fort Hamilton, NY
- Fort Detrick, MD/Walter Reed Army Med. Ctr., DC
- Buckley AFB, CO
- Elmendorf AFB (Ph II), AK
- Fort Polk, LA
- MCAS Yuma, AZ/Camp Pendleton (Ph III), CA*
- Fort Shafter/Schofield Barracks, HI
- Northeast Regional, NY, NJ, CT, RI, ME-Navy
- Fort Eustis/Fort Story, VA
- Hickam AFB (Ph I), HI
- Northwest Regional, WA-Navy*
- Fort Sam Houston, TX
- Fort Leonard Wood, MO
- Fort Drum, NY
- Fort Bliss, TX/White Sands Missile Range, NM
- Mid-Atlantic Regional, VA, WV, MD-Navy

Appendix 6 (Cont.)

- Offutt AFB, NE
- Hill AFB, UT
- Dover AFB, DE
- MCGACC 29 Palms, CA/MCSA Kansas City, MO *
- MCB Camp Lejeune/MCAS Cherry Point, NC *
- Midwest Regional (Ph I), IL, IN-Navy*
- Scott AFB, IL
- Fort Benning, GA
- Fort Leavenworth, KS
- Fort Rucker, AL
- Fort Gordon, GA
- Nellis AFB, NV
- San Diego Naval Complex (Ph III), CA *
- Carlisle Barracks, PA/Picatinny Arsenal, NJ
- Fort Riley, KS
- MCB Camp Lejeune/MCAS Cherry Point (Ph II), NC *
- MCB Camp Pendleton (Ph IV), CA *
- MCB Hawaii (Ph II), HI*
- Hawaii (Ph III), HI-Navy *
- McGuire AFB/Fort Dix, NJ-Air Force
- Redstone Arsenal, AL
- Fort Knox, KY
- AETC Group I, OK, AZ, TX, FL-Air Force
- AF Academy, CO
- Davis-Monthan AFB, AZ/Holloman AFB, NM
- Hickam AFB (Ph II), HI*
- Fort Lee, VA
- Tri-Group (Peterson AFB, CO/Schriever AFB, CO/Los Angeles AFB, CA)
- BLB (Barksdale AFB, LA/Langley AFB, VA/Bolling AFB, DC)
- Southeast Regional, SC, MS, FL, GA, TX-Navy
- Midwest, South Millington (Ph II), TN*
- San Diego Naval Complex (Ph IV), CA*
- MCB Hawaii (Ph IV), HI*
- MCB Camp Lejeune/Cherry Point (Ph III), NC*
- MCB Camp Pendleton, CA/Albany (Ph V), GA*
- Robins AFB II, GA
- AETC Group II, MS, TX, AL, OK-Air Force
- Vandenberg AFB, CA
- AMC East (Andrews AFB, MD/MacDill AFB, FL)
- AMC West (Tinker AFB, OK/Travis AFB, CA/Fairchild AFB, WA)
- West Point, NY
- Fort Jackson, SC
- Fort Sill, OK
- Falcon Group (Patrick AFB, FL; Moody AFB, GA; Little Rock AFB, AR; Hanscom AFB, MA)
- Fort Huachuca/Yuma PG, AZ
- Forts Wainwright/Greely, AK
- Mid-Atlantic (Ph III)/Camp Lejeune (Ph IV), NC
- Aberdeen Proving Ground, MD
- MCB Pendleton (Ph VIII), CA
- Hawaii Regional Navy/MCB (Ph V), HI
- Joint Base Elmendorf/Richardson, AK
- Southern Group (Shaw AFB, SC; Arnold AFB, TN; Charleston AFB, SC; and Keesler AFB, MS)
- Western Group (Beale AFB, CA; Warren AFB, WY; Malmstrom AFB, MT, Whiteman AFB, MO)
- Northern Group (Cannon AFB, NM; Cavalier AFB, ND; Grand Forks AFB, ND; Minot AFB, ND;

Appendix 6 (Cont.)

Mountain Home AFB, ID)

- Continental Group (Edwards AFB, CA; Eglin AFB, FL; Hurlburt AFB, FL; Eielson AFB, AK; McConnell AFB, KS; Seymour-Johnson AFB, NC)
- ACC Group III (Dyess AFB, TX and Moody AFB, GA)

*For reporting purposes, the following projects are combined and reported as single projects:

1. MCB Camp Pendleton II/Quantico, MCAS Yuma/Camp Pendleton III, MCGACC 29 Palms/MCSA Kansas City, MCB Camp Pendleton IV, MCB Camp Pendleton V and MCB Pendleton VIII.
2. San Diego I, II, III and IV.
3. MCB Camp Lejeune/MCAS Cherry Point Phase I, II & III. Tri-Command will also be reported in the Camp Lejeune/Cherry Point Overview.
4. Navy-Hawaii Phase I & III, MCB Hawaii Phases II, IV and V will all be reported as one project.
5. Patrick AFB, Moody AFB, Little Rock AFB, and Hanscom AFB have been combined into the Falcon Group.
6. Mid-Atlantic Phase III/Camp Lejeune IV will be reported with the Mid-Atlantic project.

Appendix 7: MHPI Project Scope

Throughout this Executive Report and supporting documentation, the expressed size of the individual privatized projects is the IDP scope that was approved by the OSD and OMB. During the development of a major residential project, particularly a project that is built over an extended number of years, the actual scope may change a small amount. Reasons for these changes vary, and include local market and base operational transformations. Unless the ultimate project size changes and resulting investment requires re-approval by OSD and OMB, the individual project scope in this report remains the currently approved number. Actual project scope is monitored by the Services' portfolio managers through various other reports.

This appendix is provided to identify, on a project by project basis, the most recent scope modifications, if any, that have occurred subsequent to the last OSD and OMB approval.

MHPI PROJECT SCOPE		
PROJECT	**APPROVED SCOPE**	**ACTUAL SCOPE**
Corpus Christi/Kingsville I, TX-Navy	404	404
NS Everett I, WA	185	185
Lackland AFB, TX	885	885
Fort Carson, CO	2,663	3,456
Dyess AFB, TX	402	402
Robins AFB I, GA	670	670
NAS Kingsville II, TX	150	150
MCB Camp Pendleton, CA	712	712
NS Everett II, WA	288	288
Elmendorf AFB I, AK	828	828
San Diego Naval Complex Overview, CA	14,524	14,513
New Orleans Naval Complex, LA (NOLA)	941	936
Fort Hood, TX	5,912	5,912
South Texas, TX (SOTX)-Navy	665	417
Fort Lewis, WA/McCord AFB, WA	4,964	4,994
Fort Meade, MD	3,170	2,627
Wright-Patterson AFB, OH	1,536	1,536
Kirtland AFB, NM	1,078	1,078
Fort Bragg, NC	6,550	6,670
PE/QU/YU (Camp Pendleton II)	11,584	11,245
Presidio of Monterey/NPS, CA	2,209	1,565
Fort Stewart/Hunter Army Airfield, GA	3,944	3,963
Fort Belvoir, VA	2,070	2,106

MHPI PROJECT SCOPE		
PROJECT	**APPROVED SCOPE**	**ACTUAL SCOPE**
Fort Campbell, KY	4,455	4,457
Fort Irwin/Moffett Field/Camp Parks, CA	3,180	3,180
Hawaii Regional , HI-Navy/MC	6,801	6,781
Fort Hamilton, NY	228	228
Fort Detrick, MD/Walter Reed Army Med. Ctr., DC	590	590
Buckley AFB, CO	351	351
Elmendorf AFB II, AK	1,194	1,194
Fort Polk, LA	3,773	3,661
Fort Shafter/Schofield Barracks, HI	7,894	7,756
Northeast Regional, (NY, NJ, CT, RI, ME)-Navy	4,264	2,953
Fort Eustis/Fort Story, VA	1,131	1,131
Hickam AFB, HI	2,474	2,474
Northwest Regional, WA-Navy	2,985	2,986
Fort Sam Houston, TX	925	925
Fort Leonard Wood, MO	1,806	1,806
Fort Drum, NY	3,861	3,307
Fort Bliss, TX/White Sands, NM	4,409	4,894
Mid-Atlantic Regional, (VA, WV, MD)-Navy	6,702	6,417
Offutt AFB, NE	1,640	1,640
Hill AFB, UT	1,018	1,018
Dover AFB, DE	980	980
Cherry Point/Camp Lejeune Overview (AMCC), NC	8,059	8,059
Midwest Regional, (IL, IN, TN)-Navy	1,719	1,719
Scott AFB, IL	1,593	1,593
Fort Benning, GA	4,200	4,000
Fort Leavenworth, KS	1,583	1,583
Fort Rucker, AL	1,476	1,476
Fort Gordon, GA	887	1,080
Nellis AFB, NV	1,178	1,178
Carlisle Barracks, PA/Picatinny Arsenal, NJ	348	348
Fort Riley, KS	3,514	3,827
McGuire AFB/Fort Dix, NJ-Air Force	2,084	2,084
Redstone Arsenal, AL	230	230
Fort Knox, KY	2,553	2,563
AETC Group I, (OK, AZ, TX, FL)	2,875	2,607
AF Academy, CO	427	427

MHPI PROJECT SCOPE		
PROJECT	**APPROVED SCOPE**	**ACTUAL SCOPE**
Davis-Monthan AFB, AZ/Holloman AFB, NM	1,838	1,884
Fort Lee, VA	1,590	1,508
Tri-Group (Peterson AFB, CO/Schriever AFB, CO/Los Angeles AFB, CA)	1,564	1,483
BLB (Barksdale AFB, LA/Langley AFB, VA/Bolling AFB, DC)	3,189	3,190
Southeast Regional (SC, MS, FL, GA, TX) - Navy	4,468	4,673
Robins AFB II, GA	207	207
AETC Group II (MS, TX, AL, OK)	2,257	2,205
Vandenberg AFB, CA	867	867
AMC East (Andrews AFB, MD/MacDill AFB, FL)	1,458	1,505
AMC West (Tinker AFB; Travis AFB; Fairchild AFB)	2,435	2,435
West Point, NY	824	824
Fort Jackson, SC	850	850
Fort Sill, OK	1,728	1,728
Falcon Group (Patrick AFB, FL; Moody AFB, GA; Little Rock AFB, AR; Hanscom AFB, MA)	2,619	2,635
Fort Huachuca/Yuma, AK	1,169	1,169
Fort Wainwright/Greely, AK	1,815	1,815
Aberdeen Proving Ground, MD	929	372
Joint Base Elmendorf-Richardson, AK	1,240	1,240
Southern Group (Shaw AFB, SC; Arnold AFB, TN; Charleston AFB, SC; and Keesler AFB, MS)	2,185	2,185
Western Group (Beale AFB, CA; Warren AFB, WY; Malmstrom AFB, MT, Whiteman AFB, MO)	3,264	3,264
Northern Group – Cannon AFB, NM; Cavalier AFB, ND; Grand Forks AFB, ND; Minot AFB, ND; Mountain Home AFB, ID	4,546	4,546
Continental Group – Edwards AFB, CA; Eglin AFB, FL; Hurlburt AFB, FL; Eielson AFB, AK; McConnell AFB, KS; Seymour-Johnson AFB, NC	3,862	3,840
ACC Group III – Dyess AFB, TX (Phase II); Moody AFB, GA (Phase II)	858	858
TOTAL	**205,483**	**202,328**